



DEPARTMENT OF THE ARMY  
ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT  
600 ARMY PENTAGON  
WASHINGTON DC 20310-0600



REPLY TO  
ATTENTION OF

DAIM-FDF

30 APR 2002

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Utility Systems Privatization – Fair Market Value

1. References:

- a. ACSIM memorandum, 5 Nov 01, Subject: Utility Systems Privatization
- b. DUSD (I&E) memorandum, 11 Mar 02, Subject: Utilities Privatization Economic Analysis Support Tool

2. The purpose of this memorandum is to provide guidance on the Fair Market Value (FMV) requirements when conducting the economic analysis for utilities privatization.

3. In October 2001, the U.S. Army Audit Agency (USAAA) issued a report on its efforts to determine the best method to satisfy the FMV requirements of 10 U.S.C. section 2688. The law requires that: "The Secretary concerned shall require as consideration for a conveyance under subsection (a) an amount equal to the FMV (as determined by the Secretary) of the right, title, or interest of the United States conveyed."

4. The US Army Audit Agency, Office of General Counsel and the Assistant Secretary of the Army (Financial Management and Comptroller) have concluded that the Army has the flexibility to use any of the following for the FMV: zero value, nominal amount, appraised value full replacement cost of the system, or a negotiated amount as consideration for the FMV of a utility system, when the economic analysis demonstrates that it is in the best interest of the government. USAAA's review found that costs could increase to the government when a payment is received for a utility system. For example, the contractor for one system "paid" the government about \$4.8 million for the electrical distribution system. However, because the contractor was allowed to recoup the cost of the capital, plus interest and profit, the true cost to the government for this "payment" was more than \$7.5 million. Thus Department of Army review has concluded that the FMV could be any number of values such as zero, nominal, appraised, full replacement cost of the system, or any negotiated amount, but that the FMV should be determined by an economic analysis applied in planning the sale of each utility system. In no case should the FMV be declared zero unless it is found to be advantageous to the government, as shown by the economic analysis.

5. The point of contact for this action is Mr. Richard Dubicki, DAIM-FDF-U, (703) 428-7617, DSN 328-7617, email: Richard.Dubicki@hqda.army.mil.



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6. Quality Facilities for Quality Soldiers!

FOR THE ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT:

  
JOHN B. NERGER  
Director, Facilities and Housing

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